EXECUTIVE SECRETARIAT
ROUTING SLIP

memo chrono

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X (w/o atts)		✓
2	DDCI -D		X (w/o atts)		
3	EXDIR				
4	D/ICS				
5	DDI	X (w/o atts)			
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	D/OGI/DI		X (w/atts)		
18	ES		X(w/o atts)		
19					
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SUSPENSE 3 April 86
Date

Remarks To 5: Please have requested info provided by 1700 tomorrow.

STAT

Executive Secretary
2 April 86
Date

3637 (10-81)

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Executive Registry
86- 1426

2 April 1986

MEMORANDUM FOR: Director, Office of Global Issues, DI

FROM: Director of Central Intelligence

SUBJECT: New Approach to the International Debt Situation - The Philippines

25X1

[redacted]

2. Why wouldn't it be easier to accomplish the same result with a World Bank and other kind of multilateral guarantees? In the attached pamphlet from The National Foreign Trade Council I note a recommendation at the bottom of page 19 of Senate approval of the World Bank Multilateral Investment Guarantee Agency.

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3. I will need this for a meeting [redacted] at ten o'clock on Friday.

C

William J. Casey

Attachments:
As stated

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[redacted]

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Memorandum

Re: Philippines External Indebtedness

PROBLEM DEFINITION

The external indebtedness problem, given the way it is currently being addressed in the Philippines (and the third world generally), isn't going to go away. Reschedulings continue to follow on one another's heels. The principal amortizations stipulated in the reschedulings are unrealistic and create an unhealthy environment in which it is extremely difficult for the debtor country to attract new capital investment. The existing unrealistic repayment schedules, high interest rates and new loans to pay interest cause the debt to compound rather than be amortized.

The Philippines' external debt profile has too short a maturity, its currency mix is too heavily weighted towards the dollar - or hard currencies, the interest rate characteristics are too biased towards floating rate debt when they should be biased towards fixed rates and too much of the debt is held by commercial intermediaries, i.e. banks, instead of the public, other sovereigns, and supra-nationals.

Philippines export performance, although multi-faceted, is unlikely to improve. On the one hand, its exports are subject to general market conditions beyond their control and separately, export proceeds are used to amortize substantial existing interest and principal burdens. In short, a vicious cycle exists, further aggravated by IMF constraints which result in additional social pressure on the country (they already have a 40 per cent unemployment rate). Surely additional austerity measures will be needed.

RECOMMENDATIONS ASSUMING A $25 BILLION EXTERNAL DEBT FOR THE PHILIPPINES

We recommend that the Philippines arrange a new borrowing of $2.5 billion.

This borrowing would be used to purchase zero coupon U.S. government securities with 30 year maturities.

Assuming an 8 per cent per annum yield, the principal value of the zero will be $25 billion in 30 years.

The above zeros will then be used to secure and repay in 30 years the present outstanding debt of the Philippines.

The Philippines would still be required to pay interest on the existing debt as well as service the new borrowing of $2.5 billion.

WHAT WE HAVE ACHIEVED

a. The Philippines have been moved from a severe credit risk to a practically AAA borrower by having secured their entire outstanding debt with U.S. government obligations.

b. Lenders worldwide do not look to the Philippines but rather to the U.S.A. for principal repayment.

c. Interest rates on existing loans should be reduced under these circumstances.

d. Export proceeds are now freed-up from having to be used to amortize debt and that amount becomes available for new investments.

e. The strong likelihood that there would be a return of capital by Filipinos to the Philippines - no assurances.

THE PROBLEM

Banks, especially U.S. banks, will no doubt resist converting short-term and medium-term debt to 30 year obligations. The fact of the matter is that the present roll-over system really creates debt with a maturity of infinity - gentle pressure will no doubt be needed to convince the banking community that such a conversion is in the interest of long-term stability both for the banks as well as the Philippines.

As far as the U.S. government is concerned, no new borrowings will be made on behalf of the Philippines. As described above, borrowing needs are such that it is simply a question of who is holding what portion of our debt.

P.S. Where suitable, the above procedure can be applied to other countries as well.

It is our feeling that the Philippines, if they felt they would not be rejected and would otherwise find support in the banking community/U.S. government, would in fact propose the above procedure.

The major concern of the Philippine government is, in our opinion, simply the taking on of new debt. However, in this context, we believe the result justifies doing so.

Meeting America's Competitive Challenge

A National Agenda for 1986

NFTC

1986
Policy Declaration of
THE NATIONAL
FOREIGN TRADE
COUNCIL